

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF NISOURCE INC.,)	
NEW NISOURCE INC., COLUMBIA ENERGY)	CASE NO.
GROUP AND COLUMBIA GAS OF)	2000-129
KENTUCKY FOR APPROVAL OF A MERGER)	

ORDER

IT IS ORDERED that NiSource Inc. (“NiSource”), New NiSource Inc. (“New NiSource”), Columbia Energy Group (“Columbia Energy”), and Columbia Gas of Kentucky (“Columbia Gas”) shall file the original and 15 copies of the following information with the Commission with a copy to all parties of record no later than May 26, 2000. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. The response to Item 26 of the Commission’s May 10, 2000 Order did not provide the information requested related to the planning and budgeting processes. Provide a specific, detailed description of the corporate planning, strategic planning, capital budgeting and Operation and Maintenance (“O&M”) budgeting processes currently utilized by the NiSource companies. Flowcharts and related target dates

should also be provided. Explain in detail the direction provided by NiSource or the manner in which NiSource is involved in the development of corporate plans, strategic plans, capital budgets and O&M budgets. Explain how local considerations are included in these processes. Explain how NiSource expects such processes to be incorporated by Columbia Gas after the merger.

2. The response to Item 27 of the Commission's May 10, 2000 Order did not provide the information requested related to the planning and budgeting processes. Provide a specific, detailed description of the corporate planning, strategic planning, capital budgeting and O&M budgeting processes currently utilized by Columbia Gas. Flowcharts and related target dates should also be provided. Explain in detail the direction provided by Columbia Energy or the manner in which Columbia Energy is involved in the development of corporate plans, strategic plans, capital budgets and O&M budgets. Explain how local considerations are included in these processes. Explain how Columbia Energy expects such processes to be incorporated by Columbia Gas after the merger with NiSource.

3. In the application and in various data responses NiSource, Columbia Energy, and Columbia Gas have identified several actions they intend to take, plans they intend to implement, and conditions they intend to abide by, in conjunction with, or subsequent to, the proposed merger. Provide a listing of all specific commitments the applicants have made to date in this proceeding with a schedule which cross-references where each such commitment is contained in the record of this proceeding.

4. Refer to page 5 of the response to Item 1(a) of the Commission's May 10, 2000 Order. Explain the circumstances surrounding the bankruptcy of NESI Energy Marketing Canada, Ltd.

5. Refer to the response to Item 18 of the Commission's May 10, 2000 Order.

a. Provide the cost incurred by Columbia Energy through May 16, 2000 in the same detail as that provided for NiSource in Schedule 18a.

b. Explain how the Columbia Energy merger costs will be recovered.

6. Explain why the response to Item 19 of the Commission's May 10, 2000 Order is not an unqualified "no." Identify any merger costs that might be indirectly borne by Columbia Gas.

7. Refer to the response to Item 52 of the Commission's May 10, 2000 Order, which notes that the proposed merger is a "convergence merger" and that the benefits, from reduced service company charges, are difficult to achieve and their timing and amount are uncertain. The two most recent mergers approved by this Commission involving energy companies were the American Electric Power ("AEP") – Central and South West Corporation merger¹ and the LG&E Energy Corporation – PowerGen plc merger,² which were both "convergence mergers." Approval of AEP's merger reflected merger surcredits, which AEP had proposed, to pass on to ratepayers expected savings

¹ Case No. 99-149, Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation Regarding a Proposed Merger, final Order dated June 14, 1999.

² Case No. 2000-095, Joint Application of PowerGen plc, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of a Merger, final Order dated May 15, 2000.

due, in part, to reduced service company charges. Louisville Gas & Electric Company (“LG&E”), which already had merger surcredits in place from its merger with KU, proposed to pass savings on to ratepayers through its Earnings Sharing Mechanism (“ESM”). While the response provides a commitment to agree that Columbia Gas will cap its current base rates, that commitment merely maintains the status quo and provides no means for ratepayers to share in any merger savings until the review of Columbia Gas’s rates in conjunction with its Customer Choice pilot program.

a. Given Columbia Gas’s returns on common equity in recent years, as shown in Item 38 of the response to the Commission’s Order of May 10, 2000, explain why the commitment to maintain the status quo by capping base rates should be considered a commitment of any value by either the Commission, Columbia Gas, or its ratepayers.

b. AEP and LG&E provided a means by which ratepayers could share in either expected merger savings, in the case of AEP, or actual merger savings, in the case of LG&E, even though there was uncertainty regarding the magnitude and timing of those savings. Explain why Columbia Gas’s ratepayers should not receive immediate savings, or a commitment to immediate savings, comparable to what AEP or LG&E ratepayers received.

c. The AEP – CSW merger was a “convergence merger” similar to the proposed Columbia Energy – NiSource merger; however, AEP was able to identify net merger savings of \$51.571 million over an 8-year period. AEP agreed to pass through to its ratepayers over the same period, by the use of merger credits, 55 percent or \$28.365 million. At the conclusion of the 8-year period, AEP agreed to annual merger

credits of \$5.243 million that would continue until Kentucky Power's next base rate case. Explain in detail why NiSource, Columbia Energy, and Columbia Gas are unable to identify any merger savings or synergies and make a commitment in this proceeding similar to the AEP "merger credit."

8. a. Explain in detail how Columbia Energy and Columbia Gas intend to identify and track all of the cost savings and synergies that will result from the merger.

b. Provide a detailed plan whereby the identified savings and synergies will be passed on to the ratepayers of Columbia Gas.

9. Refer to the response to Item 75 of the Commission's May 10, 2000 Order.

a. In its April 26 Analysis Presentation, NiSource estimated total distribution savings of \$114.3 million for the period 2001 through 2005. For this same period NiSource estimated corporate savings of \$501.5 million. Explain in detail why NiSource, Columbia Energy, and Columbia Gas will not commit, at a minimum, to return these estimated synergies to the Columbia Gas ratepayers.

b. Provide a detailed plan whereby the identified savings and synergies, contained in the April 26 Analysis Presentation, will be passed on to the ratepayers of Columbia Gas.

c. The response to Item 75(b) states that the analysis was based on certain industry benchmarks and not a detailed study of the operations of Columbia Gas. Provide a complete detailed discussion of each company benchmark used in the analysis and explain how it was used to arrive at the savings.

d. Explain why the analysis was based on company benchmarks rather than a detailed study of the operations of Columbia Gas.

e. Provide a detailed explanation of the identification line at the bottom of the analysis.

f. Identify the party responsible for the development of the analysis.

g. Was this analysis performed for any other state commission or regulatory authority? If so, identify the commission and state whether it was filed as confidential.

10. Refer to the response to Item 56 of the Commission's May 10, 2000 Order, No. 18, Transcript of Video Recording of Analyst Presentation of April 26, 2000.

a. The end of Bob Skaggs' presentation deals with distribution company returns. According to Mr. Skaggs, "Kentucky was plus 22%." Reconcile this statement with reported returns for Columbia Gas which is set out in the response to Item 38 of the Commission's May 10, 2000 Order.

b. Mr. Skaggs discusses the Columbia companies' success in leveraging regulatory relationships, and the value derived through "regulatory deals" through such activities as "profitable unbundling." Identify, with all necessary supporting documentation, the estimated value of such regulatory deals in terms of their contribution to the returns claimed by Mr. Skaggs at the end of his presentation.

11. Refer to the response to Item 58 of the Commission's May 10, 2000 Order. Provide a narrative explanation for the changes in the capital structures following the acquisition of each of the three companies for which information is provided.

12. Provide a summary of the gas cost information provided in response to Item 59 of the Commission's Order of May 10, 2000, set out in dollars per Mcf, so that a meaningful comparison can be made of the subject companies' gas cost for the most current common period available.

13. Refer to the response to Item 74(a) of the Commission's May 10, 2000 Order.

a. Explain why the illustrative example in the response uses only the \$15.3 million in distribution company savings for the first year after the merger and makes no provision for an appropriate portion of proposed corporate level savings to be allocated to the distribution companies.

b. If corporate level savings are not going to flow through to ratepayers of the distribution companies, explain how those savings, which account for approximately two-thirds of the overall projected savings associated with the proposed merger, will be a benefit to ratepayers.

c. Provide the amount of corporate savings, if any, that would be allocated to the distribution companies in the first year after the merger.

14. Refer to the response to Item 74(a) of the Commission's May 10, 2000 Order which refers to total distribution company savings of \$15.3 million in the first year after the merger.

a. Provide a detailed analysis of the \$15.3 million that disaggregates that amount into specific dollar amounts for each operating area in which savings are expected to occur.

b. Provide the amounts of distribution level cost savings for the second, third, fourth, and fifth year after the merger with the amounts disaggregated into different operating areas in the same manner as in the response to part (a) of this request.

15. Refer to the response to Item 77 of the Commission's Order of May 10, 2000. Columbia Gas's most recently awarded return on equity, in 1989, was 13.5 percent in Case No. 10498. For each of the past three calendar years provide the amount of revenue decrease that would have been required in order for Columbia Gas's return on equity to have been 13.5 percent rather than the actual returns of 17.3, 19.2, and 18.8 percent, respectively, achieved in 1997, 1998, and 1999.

16. Refer to the response to the Commission's May 10, 2000 Order, Item 97. Provide the SMRI survey reports for the last three years as described in this response.

17. Refer to Applicant's Response to the Attorney General's Data Request No. 7 dated May 15, 2000. Provide the source of the figures for the regional companies.

18. Refer to the response to the Commission's May 10, 2000 Order, Item 85.

a. Has Columbia quantified the benefits of implementing Continuous Improvement and Total Quality programs?

b. If no, explain how Columbia measures the success of these programs.

c. Do the processes listed in this response include any benchmarking against other non-Columbia companies, or are all measures compared only within the company?

19. Refer to the response to the Commission's May 10, 2000 Order, Item 85(e).

a. Explain the process by which Columbia uses the American Gas Association's 2000 Best Practices Benchmarking survey to improve Columbia's service. Compare this process to the process used by NiSource's gas distribution utilities.

b. For each of the benchmarking categories utilized by Columbia that are found in the benchmarking survey, provide data for the calendar years 1997, 1998, and 1999 which shows how well Columbia performs relative to the current survey.

20. Refer to the response to the Commission's May 10, 2000 Order, Item 86. Will NiSource implement NIPSCO's operational excellence programs and benchmarking programs onto Columbia's gas distribution companies, including Columbia Gas of Kentucky? If yes, will these programs replace Columbia's current benchmarking programs?

21. Refer to the response to the Commission's May 10, 2000 Order, Item 97(b). Provide the companies which Columbia Gas of Kentucky's benchmarks itself against.

22. Refer to the response to the Commission's May 10, 2000 Order, Item 102(b). Were the Service Quality measures listed for Bay State Gas and Northern Utilities established by NiSource as a result of their acquisition? If no, explain the process by which Bay State Gas and Northern Utilities established Service Quality measures.

23. Refer to the response to the Commission's May 10, 2000 Order, Item 98(b), 98(c), and 98(d). The responses refer back to the responses given for Item 85.

After reviewing the responses in Item 85, it is not clear how the questions posed in Item 98 have been addressed. Provide a more direct response to the questions posed in Item 98.

24. Refer to the responses to the Commission's May 10, 2000 Order, Item 24, Item 97 and Item 102.

a. Were these goals the product of OFI and Continuous Improvement efforts? Explain. If so, provide documentation which shows how these goals were selected from the pool of possible benchmarks and what other goals were not selected and why other specific goals were rejected.

b. In order to illustrate how Columbia Gas has improved in the last three years, provide comparable data for 1994, 1995, and 1996 for the 7 goals listed in Item 102. If available, provide data for 1994 through 1999 on a quarterly basis.

c. Are these 7 goals the only benchmarks that Columbia Gas uses to measure the efficiency of its operations? If no, provide a list of internal benchmarks that were used to measure operational efficiency from 1997 through 1999 and include all supporting data showing how Columbia has improved over the last three years.

25. Refer to the response to the Commission's May 10, 2000 Order, Item 99.

a. Provide a copy of the report, memo, or other document sent to senior management detailing the results of Columbia Gas's review and evaluation of the benchmarking practices.

b. If the attainment and maintenance of benchmarking goals does not directly affect employee compensation, then describe how it indirectly affects compensation.

c. Columbia states that “[t]eam members are empowered and encouraged to work across departmental lines without having to seek permission from senior management.” Provide examples of and explain how problems or processes are identified. Provide a copy of the memos or reports that are drafted by a team describing the problem, the proposed solution and follow-up memos or reports showing the implementation of the solution and whether or not the solution has solved the problem or improved the process in question.

26. With regard to asset sales, explain why Columbia Energy sold its Cove Point LNG facility.

a. Would this sale have occurred absent the proposed merger?

b. Should the profit from this sale go to Columbia Energy shareholders or be used to fund NiSource’s purchase of Columbia Energy? Include a full explanation for your response.

27. According to the May 9, 2000 NiSource newsletter, “New Directions,” filed as part of the response to Item Number 37 of the Commission’s May 10, 2000 Order, NiSource and Columbia Energy have created a team, known as “COMPASS” to integrate the two companies. Provide complete details of this team, including a complete discussion of all pre-project preparations and the program management functions. Such information should, at a minimum, include the project organizational structure, the formal goals for the merger integration process, the names and current positions of the COMPASS staff, the team’s work plan as established to date, and the baseline data for both NiSource and Columbia Energy that the Team will use in deriving

an integration plan. If the baseline data has not been gathered, identify what baseline data the Team intends to use.

28. The same May 10, 2000 newsletter identified in the previous question discusses the timetable for the three phases for the COMPASS project. Provide complete details of all activities that have taken place in Phase 1, "Opportunity Identification." Include all documents generated by or for the COMPASS group. Additionally, provide complete details of any activity that has been undertaken with regard to Phase 2 and Phase 3 of this project.

29. Refer to the response to Item 70 of the Commission's May 10, 2000 Order. Is the Integration Committee referred to in that response one in the same with the COMPASS committee referred in your May 10, 2000 "New Directions" newsletter? If not, explain how these two committees will interact and which committee has final integration oversight responsibility.

30. Refer to the response to Item 37 of the Commission's May 10, 2000 Order. In a Schedule 14A, appended hereto as Appendix A, NiSource-Columbia Energy state that an economic expert has performed an independent analysis of the potential competitive impact of the proposed merger. Provide a copy of this analysis as well as a summary of the key findings and any follow-up reports generated in response to the analysis. Additionally, provide the name of the company that performed the analysis.

31. Refer to the response to Item 37 of the Commission's May 10, 2000 Order. In a Schedule 14A, appended hereto as Appendix B, Columbia Gas states that

the employee workforce will be maintained in accordance with its plans made prior to the proposed merger. Provide the plans to which Columbia Gas is referring.

32. Refer to the response to Item 71 of the Commission's May 10, 2000 Order. If the company believes it is premature to make policy decisions regarding customer benefits, how can this Commission be expected to determine that the merger is consistent with the public interest of Kentucky consumers?

33. Refer to your response to Item 88 of the Commission's May 10, 2000 Order. Provide the name of each NiSource and Columbia Energy affiliate, whether wholly owned or in partnership with other entities, that markets gas to end-users.

34. Refer to your response to Item 92 of the Commission's May 10, 2000 Order. Provide a copy of the testimony of William H. Hieronymus filed with the Federal Energy Regulatory Commission in Docket EC00-75-00. Additionally, provide any reports, summaries or additional analysis prepared as a result of Mr. Hieronymus's testimony.

35. Refer to page 44 of the April 24, 2000 joint proxy statement/prospectus filed in response to Item 3(b) of the Commission's May 10, 2000 Order. NiSource states that it will account for the merger as a purchase and will therefore record the assets and liabilities of Columbia Energy at fair value. Reconcile this statement with NiSource's statement that, "NiSource has no current plan to elect "push down" accounting for the acquisition premium to operating companies, including Columbia Gas of Kentucky" made in response to Item 49(e) of the Commission's May 10, 2000 Order.

36. Refer to the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin ("SAB") Nos. 54 and 73 filed as Exhibit 49b-A of the response to Item 49 of the Commission's May 10, 2000 Order.

a. Provide complete copies of SAB Nos. 54 and 73.

b. Provide a copy of the "Push Down" Accounting paper issued by the Task Force on Consolidation Problems, Accounting Standards Division of the American Institute of Certified Public Accountants on October 30, 1979.

37. Provide copies of any documents filed with the SEC by either NiSource or Columbia Energy regarding the issue of "push down" accounting. If no filings in this regard have been made to date, provide a detailed discussion of the process and timeline the companies will use to determine whether or not to employ push down accounting as is generally required by the SEC.

38. Provide copies of all documents filed by either NiSource or Columbia Energy for this merger with the SEC regarding the accounting for, and disclosure of, expenses reported in connection with business combinations as discussed in SEC SAB No. 100, "Restructuring and Impairment Charges." If no filings in this regard have been made to date, provide a detailed discussion of the process and timeline the companies will use to file this information.

39. Refer to the response to Item 3(b) of the Commission's May 10, 2000 Order. Pages 96-101 of the Proxy Statement contain unaudited pro-forma financial information reflecting the combined income statement and balance sheet for the merged companies.

a. Provide the pro forma financial statements of Columbia Gas based on the assumptions contained in the proxy statement.

b. Provide the pro forma financial statements of Columbia Gas based on the assumption that push down accounting will be applied to the transaction. Include an explanation of all assumptions used in the analysis and a complete explanation of the differences between the actual and pro forma financial statements of Columbia Gas.

40. Refer to the response to Item 3(b) of the Commission's May 10, 2000 Order. One of the transaction risk factors of the merger, noted on page 19, is that the combined company will be significantly more leveraged.

a. Explain the impact this will have on the cost of capital of Columbia Gas.

b. Provide any estimates that have been prepared by NiSource, Columbia Energy, or Columbia Gas that reflect the impact of the changes in the capital structure on the cost of capital.

c. Explain how the customers of Columbia Gas can be insulated from any adverse effects of the potential increases in the cost of capital.

d. Provide reference to any SEC requirements relating to the minimum allowable equity level of a registered holding company and explain how NiSource will achieve these standards after the merger.

41. Refer to the response to Item 3(b) of the Commission's May 10, 2000 Order. Pages 33-37 contain background information on the merger. Columbia Energy had negotiations with Consolidated Natural Gas ("CNG") regarding a potential merger during 1999.

a. Provide the total cost to Columbia Energy of the failed discussions of merger with CNG.

b. Provide the amount of merger-related expenses that were billed or allocated to Columbia Gas resulting from the negotiations with CNG during each year in which any costs were incurred.

42. Refer to the response to Item 3(b) of the Commission's May 10, 2000 Order. Page 38 includes a discussion of complementary assets of the two companies, including gas storage facilities and gas transportation assets. Explain the impact of the merger on gas storage costs and transmission costs of Columbia Gas.

43. Refer to the response to Item 3(b) of the Commission's May 10, 2000 Order. Pages 45-47 include a discussion of the potential amounts that may be payable to officers, directors and employees resulting from the merger.

a. Provide NiSource's best estimate of the total cost that will actually be paid for employment or severance agreements, accelerated vesting of stock-based compensation and arrangements for their continuation as directors or officers of New NiSource.

b. Provide an estimate of the amounts in (a) above that will be charged or allocated to Columbia Gas after the merger.

44. Refer to the response to Item 11 of the Commission's May 10, 2000 Order.

a. Provide the actual cost of compliance with PUHCA incurred by Columbia Energy for the 12-month period ended December 31, 1999.

b. Provide the portion of the cost that was allocated or billed to Columbia Gas.

c. Provide the portion of the cost that was allocated or billed to all other affiliates of Columbia Energy. List each affiliate and the amount allocated.

d. Provide an estimate of the cost that will be allocated or billed to Columbia Gas after the merger.

45. Refer to the response to Item 14 of the Commission's May 10, 2000 Order.

a. When does Columbia Energy and/or NiSource anticipate that it will have completed an analysis of the impact of the merger on excess deferred taxes?

b. Provide the date the information will be made available to the Commission.

c. Has Columbia Energy and/or NiSource approached the Internal Revenue Service ("IRS") regarding the impact the proposed merger will have upon Columbia Gas's deferred income tax? If yes, provide all documents and correspondence. If no, explain if and when the Companies intend to seek the IRS's ruling.

d. If a preliminary analysis has been conducted, provide the results of the analysis with a full explanation of the conclusions reached.

e. Explain how the Commission should assess the impacts of the merger on the ratepayers of Columbia Gas without the requested information.

46. Refer to the response to Item 14 of the Commission's May 10, 2000 Order. Columbia Gas did not provide the excess deferred income taxes as of the date

of the Order as requested. Provide the requested information for the quarter ended March 31, 2000 or explain why this information cannot be provided.

47. Refer to the response to Item 15 of the Commission's May 10, 2000 Order. Provide the percentage of ownership of each of the assets listed in the response.

48. Refer to the response to Item 17 of the Commission's May 10, 2000 Order. Explain how New NiSource will insulate the ratepayers of Columbia Gas from any potential negative impacts resulting from the investments in EWGs and FUCOs.

49. Refer to the response to Item 48 of the Commission's May 10, 2000 Order.

a. If NiSource will not seek to recover acquisition premiums in any future rate proceeding, explain how the acquisition premium will be recovered.

b. If regulators require that savings from the merger be returned in whole or in part to ratepayers, explain how the acquisition premium will be recovered by NiSource.

c. If NiSource assumes that other subsidiaries and affiliates will provide the funds to pay the acquisition premium, provide an analysis that shows how this will be accomplished.

50. Refer to the response to Item 49(g) of the Commission's May 10, 2000 Order.

a. Clarify the response to the question by explaining how the amount of the deferred tax liability that would be recorded will be determined.

b. Explain how the response to question 49(e) is responsive to this question.

51. Refer to the response to Item 49(h) of the Commission's May 10, 2000 Order. Does the plan for recovery of the acquisition premium anticipate that Columbia Gas will provide funds through any means to offset any of this cost? If yes, explain how.

52. Refer to the response to Item 50 of the Commission's May 10, 2000 Order. In a 1985 case³ involving Delta Natural Gas Company Inc. ("Delta"), the Commission stated its position on the recovery of plant acquisition adjustments, and this position was applied more recently in a case involving the acquisition of Mt. Olivet by Delta.⁴ Explain why the criteria for approval of plant acquisition adjustments established in those cases should not apply to the issues regarding the recovery of the acquisition premium in this proceeding.

53. Refer to the response to Item 51 of the Commission's May 10, 2000 Order. Is it NiSource's position that any benefits that are derived from the merger, whether they be at the Columbia Gas level or the Columbia Energy level, will be used to offset the merger costs and acquisition premium rather than being returned to ratepayers in the form of rate reductions or credits to customers bills?

54. Refer to the responses to Items 1 and 2 of the Commission's Order of May 10, 2000. For each of the regulated businesses of NiSource and Columbia Energy provide an analysis of rate adjustments for the past 10 years. Include the following information:

³ Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc, Order on rehearing dated September 11, 1985, at 3.

⁴ Case No. 98-613, The Application of Delta Natural Gas Company, Inc., for an Order Authorizing the Purchase of the Assets of Mt. Olivet Natural Gas Company.

- a. Date of Commission decision.
- b. Amount of increase (decrease) requested.
- c. Amount of increase (decrease) granted.
- d. Percentage change in annual revenues.
- e. Rate of Return on equity requested.
- f. Rate of Return on equity granted.
- g. Average residential customer usage.
- h. Average residential customer bill before the adjustment (excluding gas cost).
- i. Average residential customer bill after the adjustment (excluding gas cost).
- j. Average residential customer bill before the adjustment (including gas cost).
- k. Average residential customer bill after the adjustment (including gas cost).

55. Refer to the response to Item 2(a) of the Commission's Order of May 10, 2000. Page 11 of the March 31, 2000 10-Q of NiSource reflects that net plant acquisition adjustments of \$718 million are being amortized over forty-year periods from the respective dates of acquisition. Provide a schedule that reflects the plant acquired, the date of acquisition, the entity that maintains the acquisition adjustment on its books, and whether the acquisition adjustment is included in the entity's allowable cost of service for rate-making purposes in the jurisdiction(s) in which it operates.

56. Refer to the response to Item 2(a) of the Commission's Order of May 10, 2000. Page 13 of the March 31, 2000 10-Q of NiSource indicates that derivative financial instruments are used in connection with management of gas supply costs. Provide details of any losses that have been recorded as a result of this activity since the practice was instituted in NiSource companies. Also explain the regulator's treatment of derivatives in gas cost adjustment clauses and rate cases for each of the entities that uses derivatives.

57. Refer to the response to Item 5(a) of the Commission's Order of May 10, 2000. Explain the position of NiSource with regard to any conflicts between the cost allocation and affiliate transaction guidelines of the Commission and other jurisdictions.

58. Refer to the response to Item 67 of the Commission's Order of May 10, 2000. Provide details of the highest level office that any director, officer or employee of Columbia Energy and its affiliates will hold in New NiSource or NiSource after the merger.

59. Refer to the response to Item 33 of the Commission's May 10, 2000 Order.

a. Page 12 of the NiSource Inc. 1999 form 10-K notes that Phase I of Northern Indiana's Customer Choice Pilot Program ended March 31, 1999 and Phase II began April 1, 1999 and will continue for 1 year. Provide the following information:

(1) Any reports or studies that describe the results of Phase I of the pilot program.

(2) Any regulatory commission orders addressing the results of Phase I of the pilot program.

(3) Any reports or studies that describe the results of Phase II of the pilot program.

(4) Any regulatory commission orders addressing the results of Phase II of the pilot program.

(5) Page 13 reflects that NiSource had 7,399 employees at December 31, 1999 as compared to 6,035 employees at December 31, 1998 from the 1998 form 10-K. Explain the reason for the increase in employee levels between these two periods.

60. Refer to the response to Item 49(c) of the Commission's May 10, 2000 Order. Explain why NiSource believes that each of the identified issues are not significant enough that the Commission should have complete details prior to rendering its decision in this case.

61. Refer to the response to Item 109 of the Commission's May 10, 2000 Order. Explain why there is a significant decrease in construction expenditures between 1999 expenditures and the 2000 budget for Bay State Gas Company and Northern.

62. In the Commission's May 10, 2000 Order there are several requests for NiSource, Columbia Energy and Columbia Gas to comment on merger conditions and commitments that were contained in other merger proceedings before the Commission. Since May 10, 2000, the Commission issued its Order in Case No. 2000-095 approving the merger of PowerGen and LG&E Energy on the condition that, the CEOs of each Applicant file written acknowledgement accepting, and agreeing to be bound by, the commitments set forth in Appendix A to that Order. Questions 1 through 4 are in

reference to the applicable commitments from that Appendix, except that the names have been changed to reflect the parties in this proceeding. Provide NiSource's, Columbia Energy's, and Columbia Gas's position on each of the merger commitments. Include in each response a detailed explanation for the acceptance or rejection of each merger condition. If the commitment is deemed inapplicable, provide an explanation.

a. The books and records of Columbia Gas will be kept in Kentucky.

b. NiSource, Columbia Energy, and Columbia Gas commit not to assert that the SEC's jurisdiction legally preempts the Commission from disallowing recovery in retail rates for the cost of goods and services that Columbia Gas obtains from or transfer to an associate, affiliate, or subsidiary in the same holding-company system. This assertion shall also apply to any claim under the Ohio Power vs. FERC decision. However, Columbia Gas shall retain the right to assert that the charges are reasonable and appropriate.

c. NiSource, Columbia Energy, and Columbia Gas commit to provide the Commission with notice 30 days prior to any SEC filing that proposes new allocation factors. The notice need not be in precise form of the final filing but will include, to the extent information is available, a description of the proposed factors and the reasons supporting such factors. NiSource, Columbia Energy, and Columbia Gas commit to make a good faith attempt to resolve differences, if any, with the Commission in advance of filing with the SEC.

d. NiSource, Columbia Energy, and Columbia Gas commit that NiSource's acquisition will have no impact on the base rates or the operation of the gas supply clause of Columbia Gas.

e. NiSource, Columbia Energy, and Columbia Gas commit Columbia Gas, and its ratepayers, directly or indirectly, shall not incur any additional costs, liabilities, or obligations in conjunction with the acquisition of Columbia Energy by NiSource including, but not limited to, the following:

(1) Columbia Gas shall not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the purchase price paid by NiSource for the Columbia Energy stock.

(2) The payment for the Columbia Energy stock shall be recorded on NiSource's books, not the books of Columbia Gas.

(3) The premium paid by NiSource for the Columbia Energy stock, as well as any other associated costs, shall not be "pushed down" to Columbia Gas.

(4) All transaction-related costs, including the cost of purchase and the premium paid for the Columbia Energy transaction, shall be excluded for ratemaking purposes and from the rates of Columbia Gas.

(5) Columbia Gas shall not seek a higher rate of return on equity in future rate cases than would have been sought if no merger had occurred.

(6) The accounting and ratemaking treatments of Columbia Gas's excess deferred income taxes shall not be affected by the merger of NiSource and Columbia Energy.

(7) No change in control payments will be allocated to the ratepayers of Columbia Gas.

(8) If early termination costs are incurred for employees of Columbia Energy or Columbia Gas, none of these costs will be allocated to Columbia Gas.

(9) Any additional administrative costs incurred in order to comply with the financial and accounting standards will not be borne by Columbia Gas.

f. The Applicants commit that the corporate officers of Columbia Energy and Columbia Gas shall maintain their current titles and responsibilities as officers unless and until otherwise determined by either of their respective Boards of Directors. The Applicants will maintain the highest level of management experience within Columbia Energy and Columbia Gas and will provide an opportunity to broaden that experience by exchanging positions with other managers in NiSource's organization.

g. NiSource, Columbia Energy, Columbia Gas commit to advising the Commission at least annually on the adoption and implementation of best practices at Columbia Gas following the consummation of the merger.

h. If new debt or equity in excess of \$100 million is issued, NiSource commits to notify the Commission as soon as practicable prior to the issuance, and Columbia Gas commits to notify the Commission 30 days prior to the issuance.

i. NiSource commits to notifying the Commission subsequent to its board approval and as soon as practicable following any public announcement of any acquisition of a regulated or non-regulated business representing 5 percent or more of NiSource's market capitalization.

j. NiSource commits to providing an annual report to the Commission detailing Columbia Energy's and Columbia Gas's proportionate share of NiSource's total assets, total operating revenues, operating and maintenance expenses, and number of employees.

k. NiSource commits to notifying the Commission 30 days prior to paying any dividend or transferring more than 5 percent of the retained earnings of Columbia Gas to Columbia Energy or NiSource.

l. NiSource commits to filing with the Commission a copy of its annual report to its shareholders.

m. NiSource commits to filing with the Commission such additional financial reports as the Commission, from time to time, reasonably determines to be necessary for it to effectively regulate the operation of Columbia Gas.

n. NiSource, Columbia Energy, and Columbia Gas commit that Columbia Gas customers will experience no change in utility service due to the merger.

o. NiSource, Columbia Energy, and Columbia Gas commit to:
a) adequately funding and maintaining Columbia Gas's transmission and distribution systems; b) complying with all Commission regulations and statutes; and c) supplying Columbia Gas's customers' service needs.

p. When implementing best practices, NiSource, Columbia Energy, and Columbia Gas commit to taking into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from workforce reductions.

q. NiSource commits that it will minimize, to the extent possible, any negative impacts on levels of customer service and customer satisfaction resulting from workforce reductions.

r. Columbia Gas commits to periodically filing the various reliability and service quality measurements they currently maintain, to enable the Commission to monitor their commitment that reliability and service quality will not suffer as a result of the merger.

s. NiSource, Columbia Energy, and Columbia Gas commit to notifying the Commission in writing 30 days prior to any material changes in their participation in funding for research and development. The possible changes include, but are not limited to, any change in funding equal to or greater than 5 percent of the previous year's budget for research and development. The written notification shall include an explanation and the reasons for the change in policy.

t. NiSource, Columbia Energy, and Columbia Gas commit that Columbia Gas shall continue to operate through regional offices with local service personnel and field crews.

u. In the event of a subsequent merger over which the Commission would not have jurisdiction, NiSource commits to discuss with the Commission the issue of whether there would be any synergies resulting from that merger that could be appropriately shared with Kentucky ratepayers.

v. NiSource commits to review with Columbia Gas's management its current policies and practices with respect to low income customers to determine

whether policies and practices more sympathetic to the needs of such customers would be appropriate.

w. NiSource commits that, with respect to any state-wide legislation for a low-income universal fund, it shall adopt a neutral position regarding that portion of such legislation designed to create a line item charge on utility customers' bills for the purpose of assisting low-income customers so long as such legislation has no impact on shareholders.

x. NiSource, Columbia Energy, And Columbia Gas commit that Columbia Energy shall hold 100 percent of the common stock of Columbia Gas and that Columbia Energy shall not transfer any of that stock without prior Commission approval even if the transfer is pursuant to a corporate reorganization as defined in KRS 278.020(6)(b).

63. Upon review of the responses to its May 10, 2000 Order, the Commission noted that several of the responses were either incomplete, not responsive, or did not have the information requested. Provide full detailed responses to the following requests that were contained in the May 10, 2000 Commission Order:

a. Item 4(f) – Provide copies of Columbia Energy's 1999 Annual Report.

b. Item 5(b) – How will NiSource provide strong management to Columbia Gas?

c. Item 38 – Provide workpapers and calculations to support the capital numbers.

d. Item 43 – Create the requested document.

e. Item 47 – Explain how NiSource’s investors/stockholders are assured the acquisition premium will be repaid.

f. Item 48 – The answer to Item 47 does not explain how NiSource and Columbia Energy designed the transaction to recover the acquisition premium by the merger benefits.

g. Item 49(a) – Provide the current status regarding the decision to use “push-down” accounting.

h. Item 49(c) – Provide a detailed explanation for why the determination of the appropriate accounting treatment of the premium paid by NiSource for Columbia Energy’s stock was not performed and a final determination made prior to the filing of this application.

i. Item 49(d) – Provide the estimates of the acquisition premium as requested for each alternative merger structure and pricing alternative assuming acquisition premium is required to be “pushed down.” Include all workpapers, calculations, and assumptions used in the estimated.

j. Item 49(h) – The response to Item 47 does not answer the question. Provide the information requested.

k. Item 51 – Provide an estimate of the merger benefits that will be derived from Columbia Gas to offset any acquisition premiums not provided.

l. Item 65 – Provide the information requested.

m. Item 71(c)(1) – Provide a detailed explanation of whether the disallowance of the recovery of the acquisition premium will violate the Merger Provision cited in 71(a).

n. Item 71(c)(2) – Provide a detailed explanation of whether the required pass-through of any merger savings to the Columbia Gas ratepayers will violate the Merger Provision cited in 71(a).

o. Item 75(c) – NiSource did not explain why it intends to wait until a review of the base rates in Case No. 99-165 is ordered until it will pass through any cost savings, given that NiSource has identified realizable synergies in its April 26, 2000 Analyst Presentation, to the Columbia Gas ratepayers.

p. Item 75(d) – The question asked for the costs, identified in the April 26, 2000 Analyst Presentation, that will be distributed to Columbia Energy. Include all workpapers, calculations, assumptions used in the distribution analysis.

q. Item 75(e) – Provide an analysis of how the costs distributed to Columbia Energy in Item 75(d) will be allocated to the operating companies. Include all workpapers, calculations, assumptions used in the distribution analysis.

r. Item 76 – The response did not identify the premiums paid in the mergers referenced on page 18 of the Prepared Direct Testimony of Mark Maassel.

s. Item 79 – The response did not identify the financial assistance Columbia Gas will receive from NiSource that Columbia Energy cannot provide.

64. Refer to the response to Item 28 of the Commission's May 10, 2000 Order.

a. Between 1997 and 1999 the allocations from the following affiliated companies of Columbia Gas increased significantly. Provide a detailed explanation for the increases in allocations:

(1) Columbia Gas System Service Corporation.

- (2) Columbia Gulf Transmission Company
- (3) Columbia Energy Services
- (4) Columbia Gas of Ohio
- (5) Columbia Gas Transmission Corporation
- (6) Columbia Natural Resources, Inc.

b. For each of the Columbia Energy operating subsidiaries/companies, provide an analysis similar to the one contained in the response to Item 28 of all costs billed from each of the Columbia Energy affiliates for the calendar years 1997, 1998, and 1999.

c. Provide a detailed description of the allocation methods used by the Columbia Energy Service Corporation and the affiliates of Columbia Energy.

d. Provide a detailed description of the goods or services provided by each of the affiliates of Columbia Energy to Columbia Gas.

e. Provide a detailed description of the allocation methods used by the NiSource Service Corporation and its affiliates.

f. Describe the impact the merger will have upon NiSource's and Columbia Energy's service corporations and the expense allocations to the operating subsidiaries/companies.

Done at Frankfort, Kentucky, this 22nd day of May, 2000.

By the Commission

ATTEST:


Executive Director